



# **ADDRESSING THE RENTAL ASSISTANCE PROGRAM SEQUESTRATION FUNDING REDUCTION**

RURAL DEVELOPMENT  
MULTI-FAMILY HOUSING PROGRAM  
FIELD STAFF – Informational Session

JUNE 25, 26 and 27, 2013  
**JULY 11, 2013** (make-up session)

On March 1, 2013, the Sequestration Transparency Act of 2012 (“the Sequestration Act”) went into effect. In addition, The Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6), was signed into law on March 26, 2013. As a consequence of these actions, the USDA Section 521 Rental Assistance (“RA”) Program appropriation was reduced by about \$65 million.

As a result of this appropriation reduction, funds in the RA Program will be exhausted in September. RD will be unable to renew RA agreements (contracts) once that occurs.

National Office has evaluated the remaining balances on RA Agreements and has determined that about 650 properties, representing 15,000 RA units may not be renewed.

Renewal needs continually change with the variability of RA usage. The current list (as of July 1) is the best potential list of affected borrowers.

These properties will not receive RA income until FY 14 appropriation funds become available.

The purpose of this Informational Session is to discuss Rural Development's approach to assisting borrowers during this time, and the development of an "RA Relief Plan" between borrowers and RD. This is a voluntary effort by the borrowers; they are not required to enter into a Relief Plan. For those borrowers who decline to participate in the plan, normal servicing on their accounts will continue.

This Informational Session will provide you with a streamlined process and will cover:

- ❑ RD's Relief Plan Principles
- ❑ RD's expectations
- ❑ Servicing tools to utilize
- ❑ Discussion points with borrowers
- ❑ Relief Calculation model worksheet
- ❑ RA Relief Plan
- ❑ Implementing and Monitoring the RA Relief Plan; &
- ❑ Contact information

The **RA Relief Plan** consists of a worksheet that will define the details of the plan; the worksheet will be an attachment to the formal Relief Plan.

The Relief Plan identifies all the relief measures to be implemented and will include a statement of acceptance with RD's and the borrower's signature.

The relief plan will be managed similar to a workout plan. However, the borrower WILL be entitled to return on equity, as identified in the RD-approved budget, and there will be no classification change as a result of the Relief Plan.

# Rental Assistance Relief Plan Principles

- ❑ The sequestration reduction will not affect tenants. We do not expect applicants or tenants to be treated any differently as a result of the short-term income loss;
- ❑ The RA income loss period is expected to be 1 month: the September payment will NOT be covered because it is due in FY13;
- ❑ RD will assist borrowers to cover the RA income shortfall to the maximum extent possible but FY 14 RA cannot pay the September 2013 mortgage payment;
- ❑ RA Agreements not funded in FY13 will be the first-funded when FY14 appropriations are received;

# Rental Assistance Relief Plan Principles

- ❑ Sec. 538 loan payment CANNOT be deferred by RD;
- ❑ Third-party debt service in first position must be paid by the property to ensure security for the Sec. 515/514 debt;
- ❑ This is a voluntary effort on the part of the borrower; he is not required to enter into a relief plan agreement with RD.
- ❑ This list of non-renewal contracts is internal RD information; as you would not share a list of contracts to be renewed, this list should not be shared either.
- ❑ The sequestration reduction challenge is best met by borrowers and RD working together in cooperation.



**Servicing Tools** that can be offered to borrowers of affected contracts:

- Use of funds in the General Operating Account;
- Borrower loans to the project;
- Authorized Reserve account withdrawals;
- RTO (or Asset Management Fee, if non-profit);
- Deferral of Sec. 515/514 1<sup>st</sup> position debt service payments; and/or
- Suspension of monthly reserve account deposits.

# RD Expectations

- RD will be sending a letter to affected borrowers whose RA contract may not be renewed in FY 13.
- RD State Offices will receive a copy of this letter. National Office will post the list of borrowers to the RA Monitoring Sharepoint website.
- RD should initiate contact with the borrower after he receives RD's Borrower letter and discuss a "Relief Plan" to replace the income lost because of non-renewal of the RA Agreement in FY 13.

## RA Relief Plan **Discussion Points:**

- **Relief plans must be executed by September 30, 2013.**
- Deferral/suspension cannot be for more than 12 months;
- Although RA income loss is expected for only 1 month, the relief plan could be based on the maximum loss of 3 months' income to cover any potential delays in receipt of FY 14 funding;
- Of the two deferral options (reserve deposits or debt service), reserve deposits should be a second choice;
- Deferral of the mortgage payment will not create a delinquent account. However, repayment will be required.
- If borrower chooses not to enter into a RA Relief Plan Agreement – we expect normal operations to continue.

# RA Relief Plan **Discussion Points:**

- RD will not charge interest to the Borrower on the deferred loan payment;
- Account will not be delinquent and classification will not change;
- Borrower will still be entitled to RTO, if shown on the project budget;
- Remind borrowers that the ineligible tenant waiver is available upon his request. This will permit increased occupancy and increased project income.
- Remind borrowers that now is the time to employ forceful collections on tenant contributions in order to reduce accounts receivables.
- Protective advances may be approved in accordance with Instr. 2024-A, Exhibit D.

## RA Relief Plan **Discussion Points:**

- Project budgets for FY 14 should not include a rent increase to cover the loss of RA income.
- Remind borrowers they should not submit their October mortgage payment prior to October 1 for September occupancy. If submitted earlier than October 1, RA funds from FY 14 CANNOT be used to pay the October mortgage payment.

### Rental Assistance Relief Plan Worksheet

(Input Yellow Blocks)

<b>Case &amp; Project Number (Exact Match from Sharepoint):</b>	38-19-123456789 01-2
<b>Project Name:</b>	Bentleyville Apts.
<b>Borrower Name:</b>	BPA Limited Partnership
Number of Months till RA renewal ( <b>Relief Months</b> )	2
Monthly Sec 515/514 Debt Service:	\$ 2,860 from "Details" in MFIS
Monthly Reserve Deposit:	\$ 1,000 from "Reserve" in MFIS
Annual RTO	\$ 10,000 from "Details" in MFIS

<b>Determine Amount Needed by Project</b>	from RA Sharepoint as of
Average RA/monthly usage:	\$ 12,000 July 1
<b>Gross Amount Needed for 2 months of Relief</b>	\$ 24,000

If Borrower Funds Used Click for  
Calculation of Debt Deferral

Relief Funds	ENTER MONTHS	AMOUNTS
General Operating Account funds (Cash)		\$ 5,000
Reserve Withdrawal Amount (Cash)		\$ 1,400
Sec 515/514 Debt Service Deferral (up to 12 mos)	5	\$ 14,298
Reserve Deposit Suspension (up to 12 mos)	4	\$ 4,000
Defer Return On Investment Up to One Year		\$ 1,000
Borrower loan to project (Cash)		\$ 9,000
<b>Gross Sources</b>		\$ 34,698

#### Can Project Meet All Expenses During 2 Month Period Without RA

Reduced Expenses (Deferrals & RTO during 2 Month Period)	\$ 8,719
Cash	\$ 15,400
Immediate Funds Available (Reduced Expenses and Cash)	\$ 24,119

Funds Needed for Cash Flow During RA Shortage	\$ 24,000
<b>(OK, Within \$1,000) \$119 Excess Cash and or Deferrals</b>	\$ 119

+1,000 acceptable

#### Can Project Recover After RA Renewed **Repay 12 Months**

Deferr RTO	\$ 1,000
Borrower loan to project (1% Interest)	\$ 9,090
Total	\$ 10,090

Reduced Expenses (Deferrals)	\$ 10,579
<b>(OK, Within \$1,000) \$-489 Reduce Deferral</b>	\$ (489)

+1,000 acceptable

#### Summary of Agency Tools

Sec 515/514 1st position Debt Service Deferral	5 Month(s)
Reserve Deposit Suspension	4 Month(s)
Authorized Reserve Withdrawal	\$ 1,400
Authorized Borrower Loan to Project	\$ 9,000

**Ok Debt Deferral Under 12 Months**

**This Worksheet is an attachment to the Rental Assistance Relief Plan**

Project Name:	Bentleyville Apts.
Borrower Name:	BPA Limited Partnership
Borrower ID:	38-19-123456789 01-2

The Borrower and Rural Development ("RD") agree to this Rental Assistance Relief Plan ("Relief Plan"), developed in response to funding reduction in the Rental Assistance ("RA") program as a consequence of the Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6), signed into law on March 26, 2013. This Relief Plan will be effective \_\_\_\_\_, 2013 to December 31, 2014 or through the end of the latest effort described on the RA Relief Plan Worksheet. In order to help the borrower maintain operations during the plan term, the borrower and RD agree to the following assistance (check and complete as appropriate):

1. \_\_\_\_\_ \$ 5000 from the general operating account will be used to cover the period without RA income.  
  
One-time Reserve account withdrawal not to exceed \$ 1400.
2. \_\_\_\_\_ Borrower must request and receive written authorization from RD in accordance with 7 CFR 3560.306.  
  
RD agrees to permit a borrower loan to the project in the amount of \$9000 advanced on \_\_\_\_\_ (date), at a 1% interest rate with a term not to exceed 12 months. Repayment will begin with the FY 2014 project budget cycle and must be included in the RD-approved
3. \_\_\_\_\_ FY 14 project budget. [7 CFR 3560.309]  
  
Borrower agrees to defer the Return to Owner (RTO) or Asset Management Fee (if non-profit) of \$ 1000 for the FY 2013 project budget cycle. The deferred amount can only be taken in the FY 2014 project budget cycle.
5. \_\_\_\_\_ Deferral of the monthly debt service payment for 5 Month(s), beginning September 1, 2013.  
Borrower agrees that the deferred amount will be due at the end of the life of the loan.
6. \_\_\_\_\_ Suspension of the monthly reserve deposit for 4 Month(s), beginning September 1, 2013.  
Deposits to resume \_\_\_\_\_.
7. \_\_\_\_\_ RD agrees to not charge interest on the deferred payment.
8. \_\_\_\_\_ Borrower agrees that no tenants will be negatively affected by this Relief Plan.
9. \_\_\_\_\_ Borrower declines to participate in the Rental Assistance Relief Plan.

**Signatures below indicate agreement to the RA Relief Plan as defined above.**

Borrower/Borrower's Representative	Date	Rural Development Official	Date
BPA Limited Partnership			

After execution, the RA Relief Plan should be put in the Servicing File and a copy should be posted to the RA Monitoring Sharepoint site.

It is critical that RA Relief Plans be monitored by the field to ensure proper implementation.

The following slides will provide further assistance on implementing and monitoring the relief plan.



# Initial Field Analysis

- Prior to your discussion with the borrower, conduct an analysis of the current property financial situation.....
- Identify Existing Servicing Efforts
  - Existing Deferrals (WOPs & MPR) – payment deferral option not available
  - Pending Financial Transactions
    - Transfers
    - FAP's/BAP's
    - AMAS payments (that may be in pending)
  - For accounts that may be “Ahead of Schedule or Future Paid”, utilize ahead or future paid status in determining period of payment deferral.

# Project Worksheet Issues

- No changes to any tenant certification processing.
- Borrower will not be able to accept PWS through MINC and must submit their PWS through mail, email or fax
  - Address – Rural Development, P.O. 979082, St. Louis, MO 63197
  - Email – [multifamily@stl.usda.gov](mailto:multifamily@stl.usda.gov)
  - Fax – 314-457-4490
  - Complete packet includes Part I and II of Form 3560-29 along with any payment to cover mortgage and overage
  - RA will be paid from the remaining balance. Overage will be due in all cases.

## Sharepoint

- Will include:
  - RA Average Usage
  - RD 515/514 Mortgage Payment Amount
  - Reserve Monthly Deposit Amount
  - Reserve Actual Balance
- When Relief Plan is approved and signed, go into Sharepoint Site and upload Relief Plan along with the calculation worksheet.

# MFIS Enhancements/Updates

- MFIS will be manually updated by the field to show a Special Servicing Disaster code “RA Sequestration”, on Project Detail Screen, based on the list of affected properties identified.
- The field will also manually suspend payments in MFIS which will prevent borrower from processing through MINC. Under payments tab, select Project Suspense, and under suspension type, select “RA Relief”, and complete an end date according to the RA Relief agreement.

## MFIS Enhancements/Updates

- You must populate in MFIS Servicing Efforts - RA Relief Plan (3033) Servicing Effort.
- If deferring reserve deposits, the Automatic Accrual will need to be manually reversed:
  - Go into MFIS Projects - Tracked Accounts – Reserve
  - Select Add – Then under Trans Type, select “Reverse Accrual” and enter the date and amount of the accruals you want reversed (ex: 9/1/13, 10/1/13, 11/1/13). You can add all the months at once, even if future dated.
  - The required balance will be adjusted by this amount.
- If deferring RD 515/514 Mortgage Payments:
  - Go into MFIS Projects – Details
  - Under Payment Status, change Installment Type to “Monthly Other”;
  - Change “other payment amount” to \$0.

# MFIS Enhancements/Updates

- If a Reserve Withdrawal will be requested
  - The amount will be a one-time withdrawal as per amount identified on calculation worksheet.
  - This will be approved and processed the same as any normal reserve request.
    - Borrower needs to notate in the “Purpose” field “RA Relief Plan” on 3560-12 “Request for Authorization to Withdraw Reserve Funds”.
    - Invoices will not be required for this one time withdrawal.
  - When approved, go into Tracked Accounts, Reserve Account, select Add, then under Trans Type, select “RA Relief Plan” and complete the date and amount and comments.
- If Borrower Advance to project
  - Add Servicing Effort “Loan Advance From Borrower (3027)”.

# CSC Duties

- CSC Duties
  - Manual Project Worksheets (during the time when funds are not available) will be received through lockbox.
  - Close collect PWS – process special collection for remaining RA in agreements.
  - During the payment deferral period – the payment amount in MFIS will be set to \$0 – Overage will be paid from RA and the remaining amount of RA will be sent out as a RA check.

# Monitoring

- Payment Deferral -
  - At end of payment deferral period go back to project details and change payment back to monthly regular.
- When RA is funded in FY 14 –
  - Remove payment suspense so the payments may be processed in MINC.
- When RA Relief Plan is complete –
  - Go into Servicing Effort, “RA Relief Plan” and input completed date.
  - Go to details and complete end date under Special Servicing.



# **Contacts**

National Office (Policy & General questions)

CSC (Tenant Certification & Project Worksheet questions)

DCFO (AMAS questions)

QUESTIONS?